

File Ref: 1438148

19 February 2021

Ms Pam Bains
Group Executive Network
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Ms Bains

Aurizon Network's 2019–20 capital expenditure claim

I wish to advise that the Queensland Competition Authority has approved Aurizon Network's 2019–20 capital expenditure claim. The total expenditure approved to be included into Aurizon Network's regulatory asset base is \$238,215,220 (including interest during construction).

The basis of our decision is set out in the attached decision notice, in accordance with schedule E, clause 2.3(c) of the 2017 access undertaking (UT5). This letter and decision notice will be published on the QCA website for stakeholders' information.

I note that some stakeholders have raised concerns over the lack of detail around the allocation of expenditure between GAPE system users and Newlands system users—as well as Aurizon Network's apparent lack of engagement to develop an appropriate approach to date. It is clear this is an issue that these stakeholders wish to resolve. To this end, I acknowledge Aurizon Network's more recent commitment to accelerate discussions with interested stakeholders, including through the Maintenance and Renewals Strategy and Budget process, the RAB roll-forward and the annual review of reference tariffs.

I am happy to discuss any questions you may have on this or any other matters. Should your staff have any specific queries about the attached paper, please direct them in the first instance to Zoe Wyatt on 07 3222 0547, or by email at zoe.wyatt@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

cc: Jon Windle, Network Regulation Manager, Aurizon Network

DECISION NOTICE

AURIZON NETWORK'S 2019–20 CAPITAL EXPENDITURE CLAIM

19 February 2021

The Queensland Competition Authority accepts Aurizon Network's 2019–20 capital expenditure claim as prudent and efficient, and approves its inclusion in the regulatory asset base. We have set out our reasons in this decision, in accordance with schedule E, clause 2.3(c) of the 2017 access undertaking (UT5).

Aurizon Network's 2019–20 capital expenditure claim

We conduct an annual assessment of the prudence and efficiency of Aurizon Network's capital expenditure, to determine if it should be included in the regulatory asset base (RAB) for the central Queensland coal network (CQCN). In determining the prudence and efficiency of capital expenditure, we have regard to the scope of works, standard of works and cost (sch. E, cl. 2.2(b) of UT5).

Aurizon Network submitted its 2019–20 capital expenditure claim on 31 July 2020. The claim encompassed 40 projects, totalling \$238 million including interest during construction (IDC).

Engineering consultant's assessment

We engaged Arcadis to provide engineering advice on the prudence and efficiency of Aurizon Network's capital expenditure claim (in accordance with sch. E, cl. 2.2(h) of UT5). A sample of projects was selected to be assessed against the criteria in schedule E of UT5. The sample comprised 9 projects, representing approximately 71 per cent of the total value of the claim.¹

Arcadis assessed and reported on the projects, based on a site visit and a desktop review of information provided by Aurizon Network. Arcadis's assessment found all sampled projects satisfied the criteria for prudence and efficiency as set out in schedule E of UT5.²

Stakeholder consultation

We provided stakeholders with opportunities to make submissions on Aurizon Network's claim and the proposed sample, and on Arcadis' assessment of prudence and efficiency.

¹ QCA, *Stakeholder notice and sample list*, stakeholder notice, September 2020.

² Arcadis, *Aurizon Network 2019–20 Capital Expenditure Claim*, report for the QCA, December 2020 (Arcadis report).

We received submissions from QCoal and Glencore. Both considered the claim did not contain enough detailed information around the allocation of capital expenditure between the Newlands system and GAPE system, and in particular the extent to which capital expenditure incurred on the Newlands system is an incremental cost due to traffic from GAPE system users.

In response, Aurizon Network said that the QCA's capital expenditure assessment should focus on assessing the prudence and efficiency of the overall capital expenditure to be included in its RAB, with the subsequent RAB roll-forward report separately reporting capital expenditure for each coal system. In doing so, Aurizon Network proposed to attribute the approved capital expenditure to each individual coal system based on the location of the rail infrastructure—with costs associated with the renewal or replacement of Newlands system rail infrastructure to be reported within the Newlands system RAB, and costs associated with the replacement or renewal of assets that were originally constructed as part of the GAPE project to be reported within the GAPE RAB.

Aurizon Network also stated its commitment to accelerate discussions with interested stakeholders, to discuss the basis upon which any Newlands system asset replacement and renewal expenditure should be attributable to Newlands and GAPE train services. This includes providing a listing of the individual asset renewals on the common rail infrastructure by asset program.

We have considered all stakeholder submissions and Aurizon Network's response in making our decision.

QCA assessment and decision

Our decision is to approve Aurizon Network's 2019–20 capital expenditure claim of \$238,215,220 (including interest during construction) into the RAB. This decision is based on the information available, including through stakeholder consultation and Arcadis' findings, having regard to the criteria outlined in schedule E of UT5. The full list of projects can be found in Attachment 1.

We note stakeholders' concerns regarding cost allocation between the Newlands and GAPE systems and are aware that this issue will influence the RAB roll-forward report and annual review of reference tariffs. Aurizon Network has acknowledged that progress in this regard has been limited to date. However, Aurizon Network has committed to accelerate discussions regarding this issue with interested stakeholders.

While the capital expenditure assessment presented Aurizon Network with an opportunity to provide some transparency around this issue, its proposal and our assessment focused on the prudence and efficiency of Aurizon Network's 2019–20 capital expenditure overall. This approach is consistent with the schedule E assessment process and with previous capital expenditure reviews, where we undertook a detailed assessment of a sample of projects to provide insights into the prudence and efficiency of Aurizon Network's overall claim.

Aurizon Network has now provided the composition of the 2019–20 capital expenditure claim by coal system, and has also committed to providing a listing of the individual asset renewals on the common rail infrastructure by asset program as part of its stakeholder engagement. We will use this information to inform our future assessments of the RAB roll-forward and annual review of reference tariffs.

References

Aurizon Network, *FY20 Capital Expenditure Report*, July 2020.

QCA, *Stakeholder notice and sample list*, stakeholder notice, September 2020.

Arcadis, *Aurizon Network 2019–20 Capital Expenditure Claim*, report for the QCA, December 2020 (Arcadis report).

QCoal, submission letter to the QCA, *Aurizon Network 2019–20 capital expenditure claim assessment—Arcadis report*, 15 January 2021.

Glencore, submission letter to the QCA, *Aurizon Network 2019–20 capital expenditure claim assessment—Arcadis report*, 19 January 2021.

Aurizon Network, letter to the QCA, *Aurizon Network 2019–20 capital expenditure claim assessment—Response to Stakeholder Submissions*, 29 January 2021.

ATTACHMENT 1: APPROVED 2019–20 CAPITAL EXPENDITURE CLAIM

<i>Project number</i>	<i>Project name</i>	<i>Asset type</i>	<i>Claimable expenditure (\$, excl. IDC)</i>	<i>IDC (\$)</i>	<i>Claimable expenditure (\$, incl. IDC)</i>
IV.00605	FY20 Ballast Renewal Program	Track	63,901,439	141,408	64,042,847
IV.00477	Track Renewal Package 2	Track	32,154,636	97,149	32,251,785
IV.00426	Rail Renewal Program Package 2	Rail	25,763,731	140,643	25,904,374
IV.00447	Structures Renewal Package 2	Structures	15,103,232	63,890	15,167,122
IV.00456	Control Systems Renewal Package 2	Network Controls	14,542,832	107,354	14,650,185
IV.00455	Control Systems Renewal Package 1	Network Controls	12,340,377	399,606	12,739,984
IV.00462	Turnout Renewal Package 2	Turnouts	10,418,498	167,166	10,585,664
IV.00453	Formation Renewal Package 2	Formation / Ballast	10,347,278	48,363	10,395,641
IV.00474	Sleeper Renewal Package 2	Sleepers	9,691,200	(32,533)	9,658,667
IV.00450	Bridge Ballast Renewal Package 2	Formation / Ballast	6,633,982	56,984	6,690,966
IV.00503	Power Systems Renewal Package 1	Network Controls	4,956,864	100,354	5,057,218
IV.00459	Level Crossing Renewal Package 2	Level Crossings	4,847,544	45,472	4,893,017
IV.00506	Electrical Overhead Renewal Package 1	Electrical	4,545,732	228,802	4,774,534
IV.00609	FY19 Kestrel Infrastructure Upgrade	Track	2,944,844	70,466	3,015,310
IV.00613	FY19/20 Gregory Infrastructure Upgrade	Track	2,972,464	38,822	3,011,285
IV.00504	Power Systems Renewal Package 2	Network Controls	2,870,299	14,388	2,884,687
IV.00446	Structures Renewal Package 1	Structures	2,182,160	50,033	2,232,194
IV.00470	Corridor Security Package 1	Corridor Access	1,690,267	52,060	1,742,327
IV.00507	Electrical Overhead Renewal Package 2	Electrical	1,350,902	34,481	1,385,383
IV.00478	Track Renewal Package 3	Track	1,230,623	50,998	1,281,621
IV.00606	Rail Lubrication FY20	Track	1,002,447	(12,332)	990,115
IV.00347	Package 2 FY18 Control Systems Renewal	Network Controls	827,602	53,805	881,407
IV.00425	Rail Renewal Program Package 1	Rail	714,001	22,580	736,581
IV.00049	Radio System Replacement	Network Controls	627,449	11,850	639,299

<i>Project number</i>	<i>Project name</i>	<i>Asset type</i>	<i>Claimable expenditure (\$, excl. IDC)</i>	<i>IDC (\$)</i>	<i>Claimable expenditure (\$, incl. IDC)</i>
IV.00452	Formation Renewal Package 1	Formation / Ballast	494,261	12,771	507,032
IV.00468	Access Roads Package 2	Corridor Access	458,148	9,720	467,868
IV.00517	FY19 Ballast Renewal Program	Track	365,803	4,804	370,607
IV.00449	Bridge Ballast Renewal Package 1	Formation / Ballast	279,914	7,771	287,685
IV.00461	Turnout Renewal Package 1	Turnouts	278,395	6,849	285,244
IV.00457	Control Systems Renewal Package 3	Network Controls	156,252	1,235	157,487
A.04313	Gauge Face Lubrication Asset Renewal	Track	148,314	2,481	150,795
IV.00465	Access Points Package 1	Corridor Access	125,266	7,706	132,972
IV.00476	Track Renewal Package 1	Track	96,555	7,043	103,598
IV.00458	Level Crossing Renewal Package 1	Level Crossings	39,364	859	40,223
IV.00004	Traction Fault Locator Renewal	Electrical	28,107	452	28,559
IV.00555	FY19 Minerva Infrastructure Upgrade	Track	21,026	6,159	27,185
IV.00283	Traction SCADA System	Network Controls	19,500	(139)	19,361
IV.00329	Structures Renewal FY18	Structures	17,550	296	17,846
IV.00467	Access Roads Package 1	Corridor Access	5,221	194	5,414
IV.00376	FY18 Access Points	Corridor Access	1,105	27	1,132
Total			236,195,182	2,020,037	238,215,219

Note: Numbers may not sum due to rounding.